



Income Investors: TransCanada Corporation Yields a Solid 4.7%

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) costs under \$48 per share and yields 4.7%. This is a fair price to pay for the leading North American energy infrastructure company.

The business

TransCanada develops and operates natural gas and liquids pipelines, power generation, and gas-storage facilities. It owns \$64 billion of assets.

Its natural gas pipelines run more than 67,000 km and transport about 20% of North America's gas needs. TransCanada also has 368 billion cubic feet of gas-storage capacity. Additionally, TransCanada's Keystone Pipeline transports roughly 20% of western Canada's crude oil exports to the U.S. Midwest and Gulf Coast.

On top of that, the energy infrastructure leader owns or has interests in more than 13,100 megawatts of power generation across 20 essential facilities. One-third of that power is sourced from green energy such as wind, hydro, and solar power.

Growth

In the near term, TransCanada has \$13 billion of growth projects that are anticipated to be in service by 2018. TransCanada also has \$45 billion of commercially secured medium- to long-term projects.

These projects should help drive growth along with TransCanada's existing assets, which are primarily underpinned by cost-of-service regulated business models or long-term contracts with credit-worthy counterparties. These quality assets generate highly predictable cash flows with minimal commodity or volume throughput risk.

Dividend and dividend growth

TransCanada pays a quarterly dividend of 56.5 cents per share, equating to an annual payout of \$2.26 per share. What's more to like is that TransCanada has increased its dividend for 15 consecutive

years. It last increased it by 8.7% in the first quarter of this year. From 2011 to 2015, TransCanada only paid out 40-48% of its distributable cash flow as dividends.

This shows that TransCanada is a responsible company to its shareholders, especially to those who are income oriented. Going forward, TransCanada expects to increase its dividend by 8-10% each year through 2020.

If you buy 100 shares today (costing about \$4,800) you can expect to earn \$226 of dividends in the next 12 months. By 2020, you'll earn about \$319 of dividends, essentially growing your income by 41%, and you'll sit on a yield on cost of about 6.6%.

Conclusion

Based on TransCanada's normal long-term multiple, it is fairly valued at about \$48 per share. If you're looking for a decent income of 4.7%, TransCanada, with an S&P credit rating of A-, is a good choice.

It has a 15-year track record of growing dividends with sustainable payout ratios. Further, it has entered its 16th consecutive increase early this year, and it anticipates to grow its dividend by 8-10% every year through 2020. This is supported by its carefully selected growth projects.

Any further dips will make TransCanada an even stronger buy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. Editor's Choice

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2. TSX:TRP (TC Energy Corporation)

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Author
kayng

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